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1. Dr. Heinrich Bertsch, head of the Department of Chemical Industry of the German Economic Commission (DKW), as well as Heinrich Rau and Fritz Selbmann, expect the production of Soviet AGs to be included in the near future in the production and distribution plans of the DKW, i.e. starting with the third quarter 1948. These men claim to know that directives to this effect have already been issued by Soviet agencies in Moscow to the heads of Soviet AGs and to the SMIA. Although it had been too late, they said, to include Soviet AGs in their entirety in the preliminary economic production plan for the second quarter of 1948, deliveries made by German-controlled firms to Soviet AGs and vice versa had been taken into account on the basis of average performances during the last few three-months' periods.

There never has been any satisfactory answer to the question what were the reasons which induced the Russians to set up Soviet AGs. The most plausible explanation tendered, [ ] is that 2 the increasing difficulties encountered in the procurement of raw materials and the desire to divert part of the industrial production of the eastern zone into Russian channels, made it advisable for the Russians to put certain industrial categories under the immediate and permanent control of a Soviet agency. These industrial categories had, of course, to consist primarily of plants for whose products there was an acute demand in the USSR, or from which Russia could profit indirectly by selling the final products to foreign markets. This applies, for instance, to the potash industry.

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3. In the course of time, however, it became obvious that the Soviet AGs did not live up to the expectations of the Moscow authorities. The bulk of reparations deliveries to Russia has not come from Soviet AGs, but from the German-controlled industry. Only in a few special cases were Russian needs for certain products covered directly by Soviet AGs; this applies to the BMW in Eisenach, the Agfa Filmfabrik Wolfen, and the Walzwerk Hettstedt. A large part of the production of Soviet AGs was, it is thought, diverted into the German-controlled industry of the Soviet Zone. This is

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particularly true of the heavy chemical industry of central Germany whose plants, almost without exception, had been incorporated into Soviet AGs. Exports of products from Soviet AGs were negligible. The quantities of potash, sodium sulphate, film, and coal exported by Soviet AGs, were actually less important than exports made by German-controlled industries whose products were bought up by Soviet trading companies.

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4.   the Russians originally overestimated greatly the value of their acquisitions in the eastern zone, as was borne out in the case of the IG Farben combine. When the Russians took over the IG Farben plants located in the Soviet zone, they presumed they had also inherited the economic potentialities of this combine, or at least the share equivalent to the value these plants represented in the general set-up, but realized only later that this was not so. In addition, the Russian authorities have, no doubt, realized by now that the Soviet AGs represent no profitable assets, and that there is scarcely one plant which is expected to yield a sizable profit, either in the immediate or in the distant future. The Buna-Werke in Schkopau, for instance, are operated only to fill Russian needs; they are not operating at full capacity, which means that they are operated at a deficit. The same is true of the chemical industry.
5. Under these circumstances, it might well be that the "Administration for Foreign Assets of the USSR" in Moscow has lost interest in the Soviet AGs and that Russian authorities might therefore be willing to liquidate their interest in these firms. Although this would actually mean that the Russians have given up all hope of making Soviet AGs pay, the return of these plants to the German economy would be advertised for propaganda purposes "as a generous gesture in favor of the German people." Some credence should, therefore, be given to KPD allegations that the Soviet AGs will be returned to the German state.
6. Remarks made by such well informed persons as Mr. Rau disclose a rather pessimistic evaluation of the Soviet AG situation. During the last few weeks, Rau and Selbmann have, during internal discussions, sharply criticized the reparations policies pursued by the Russians, in regard not only to the amount of reparations demanded, but also the absence of records determining the value of reparations deliveries, and the fact that unexpected and sudden changes are being made continually which disrupt all plans. On 19 June, a new "Hauptverwaltung" Reparations was set up in the DWK, which is headed by Mr. Margon. It is to handle all reparations questions centrally, whereby it will be possible to obtain a clear picture of the entire reparations question. At the time this office was opened, Rau requested section heads to collect all available material connected with reparations. In the past, probing into this matter had been labeled "espionage" and had been forbidden. The order given by Rau to his subordinates indicates that no records were kept by previous Central Administration offices.
7. The internal discussions give no indication whether or not decisions have actually been reached on this subject with the SMA or the responsible Moscow agency. The fact that Communist newspapers did not react to feelers sent out on this subject by Grotewohl on the initiative of the SED Central Secretariat, about six months ago, showed that the Russians were not inclined to discuss this matter; this was confirmed by remarks made by Rau, Selbmann, and other officials of the DWK during internal discussions.

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